

United States

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-benefit		♦ Defined-benefit or defined-contribution
Participation:	♦ Mandatory		♦ Voluntary
Management:	♦ Publicly-managed		♦ Privately-managed
Financing:	♦ PAYGO/Partially funded		♦ Fully funded with exceptions
Coverage:	♦ All economically active individuals and spouses, including self-employed		♦ Economically active individuals over 21 years
Eligibility:	♦ Age 65 for both men & women, and fulfilled minimum contribution requirements		♦ Varies between programs

Challenges Facing Pension System

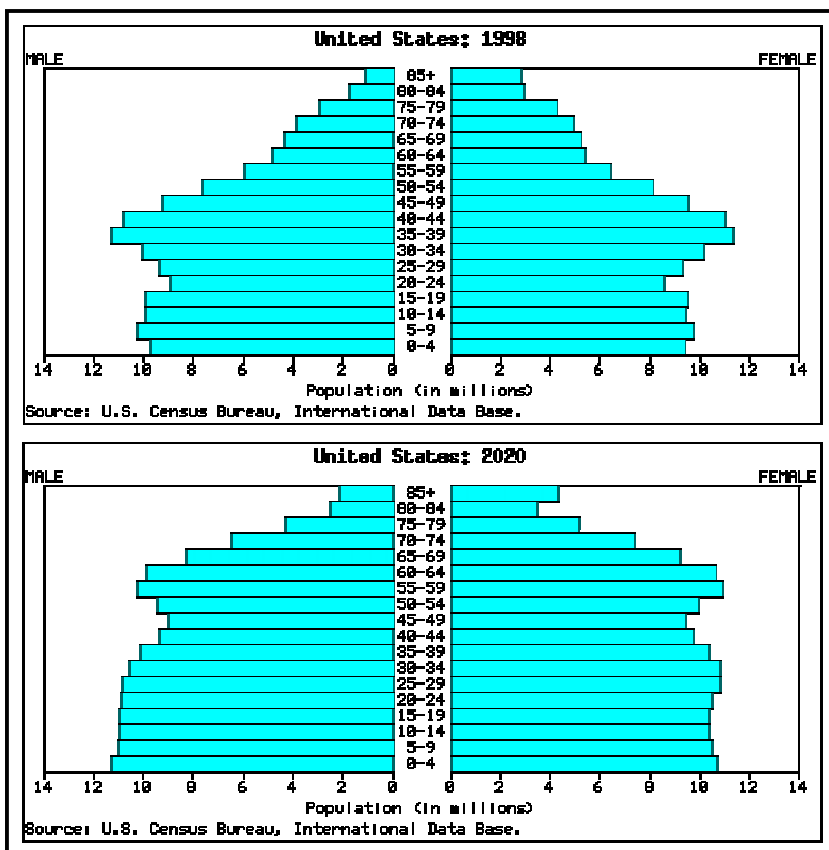
- ☐ Demographic shifts
- ☐ Decreasing contribution levels
- ☐ Impact of increasing payroll taxes

Summary of Current Pension System

The United States pension system consists of two pillars: a mandatory, public system (or pillar one) and voluntary, privately-managed pension accounts (or pillar three). Pillar one covers individuals in the private and almost all individuals in the public sector, in addition to those individuals employed by State and local governments. This social security scheme also known as the Old Age, Survivors and Disability Insurance Program (OASDI) is financed on a pay-as-you-go (PAYGO) basis with equal contributions from employer and employee at a rate of 6.2 percent respectively. In addition to PAYGO financing of the social security system, it is also partially funded having accumulated assets valued at 6 percent of GDP in 1993. Social security is not provided on a means tested basis, but low-income individuals are favored by the composition of the benefit formula.

The retirement age is currently at 65 years for both men and women, but is expected to increase to 67 years between the year 2000 and 2022. Eligibility for early retirement begins at 62 years coinciding with reduced benefits and the vice versa for those individuals working beyond retirement age.

Benefit calculation is generally based on three methods; "The new method which utilizes the Average Indexed Monthly



Earnings (AIME) to establish the Primary Insurance Amount (PIA); "The old method" which determines the PIA using the average monthly wage; and, "The transitional method" which calculates benefits based on a different benefit table than that of "The old method".

The voluntary benefits provided under pillar three are extensive in the United States, but are generally based on defined benefit and defined contribution plans. Additional benefits offered by some employers may include profit sharing

United States

SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	270,312	323,052
Life Expectancy at Birth (Years)	76.13	78.58
Total Fertility Rate (Child Born per Woman)	2.06	2.14
Age Dependency Ratio (percent)	26.6	40.0
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	0.3	0.1

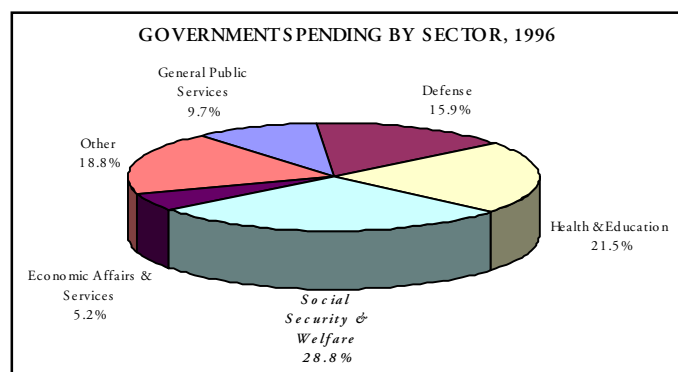
Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) ¹	7,433.3
GNP Average Annual Growth Rate, 1995-1996 (percent) ¹	2.3
GNP Per Capita (in PPP) ¹	28,020
Inflation Rate (percent) ²	2.9
Labor Force Participation Rate (percent) ³	51.0
Unemployment Rate (percent) ³	5.4

Source: Central Intelligence Agency; International Labour Office.

Pension	1997
System Dependency Ratio, 1996 (percent)	
Employee Contributions for Pensions (percent of earnings)	Varies
Employer Contributions for Pensions (percent of payroll)	Varies
Public Pension Expenditure as % of Government Expenditure	24.5
Public Pension Expenditure as % of GDP, 1996	6.5

Source: U.S. Social Security; International Monetary Fund.



Source: IMF Government Finance Statistics Yearbook.

plans and Stock bonus plans. Following the introduction of the Employee Retirement Income Security Act (ERISA) of 1974, the Pension Benefit Guaranty Corporation was established as the governing body of defined benefit plans to ensure compliance and fulfillment of minimum contribution benefits.

Coverage is provided for economically active individuals over 21 years and benefits are provided irrespective of cost of living increases. Employee contributions are usually matched by employer contributions on a pre-tax basis with individuals not permitted to contribute in excess of \$10,000 annually.

Challenges Facing Pension System

Similar to many other industrialized countries, the United States is displaying an upward trend in its demographic structure. The baby-boom generation is expected to retire within the next 10 years, increasing pressure on benefit provision - 16 workers provided benefits for each social

security recipient in 1950 and this ratio is expected to decrease to 3:1 by 2030. Despite maintaining a current surplus in social security taxes, it is expected that by the year 2012, the level of pension benefits required will exceed revenues collected. Social security will be dependent on social security taxes, and since social security is based on a PAYGO system, and with current employees paying pension benefits for current retirees, there will be increased pressure on both the employers and employees. With expectations that the Social Security Trust Fund will have been depleted by 2029, (that is, the stock of Treasury Certificates or IOU's the Government has written to itself), the government will not be able to fulfill benefit requirements. Between 1997 and 2075, projected social security benefits will exceed payroll tax revenues by approximately \$160 trillion.

In addition, despite the increase in the longevity, labor force participation in the United States by men over 55 years has decreased, thereby decreasing contribution levels. With fewer individuals in the work force, higher payroll taxes may be inevitable. Also, with the introduction of increased payroll taxes, unemployment levels are expected to increase. Payroll taxes have increased 17 times in the past 50 years, increasing from 2 percent to 12.4 percent in 1997.

Pension Reform Efforts

Despite the urgent need to reform the U.S. pension system, the debate continues as to whether or not privatization is the best and only option. The central issue of debate appears to focus on whether the government or the individual will maintain responsibility for the investment of funds and the options available in order to obtain the best possible return.

Currently, there are five plans under consideration of which three suggest the establishment of private investment accounts, while the remaining funds are based on voluntary accounts. In addition, two of the plans are expected to re-direct payroll taxes from the Social Security Trust Fund unlike the others which would place greater emphasis on reduced benefits and/or increased eligibility requirements.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		✓
Formulation of proposals	✓		✓
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			